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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

DDI #333-82
15 January 1982

National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence
VIA: Chairman, National Intelligence Council
FROM: Maurice C. Ernst
National Intelligence Officer for Economics
SUBJECT: Global Economic Assessment

1. Herewith is [] first cut on the Global Economic Assessment. I believe [] has done an outstanding job. There was insufficient time, however, to

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- prepare graphs and tables;
- present more than a very generalized picture of longer-term economic trends;
- review the paper;
- write a Summary and Conclusions.

2. From a quick reading of the paper I believe additions and changes along the following lines would be appropriate:

Energy

A brief discussion of the circumstances under which the nominal price of oil might fall during 1982-82--for example, an end to the Iran-Iraq war coupled with slow growth of energy demand in the West--and the implications thereof. For the longer term, a clear analysis of the policy implications of divergent forecasts for real oil prices.

Other "Implications"

Some of the analysis in this section could be taken further to cover feedback, and political-economic linkages. For example:

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(1) If the US and Western Europe did substantially restrict imports from Japan, what would be the impact on the Japanese economy and on Japan's political and economic relations with the rest of the world?

(2) In a more positive vein, what progress can reasonably be expected toward a successful new round of Multilateral Trade Negotiations?

(3) What is the potential political impact of economic problems in weak countries, such as many in Africa and Central America? Specifically, are attempts to curtail cheap imports used mainly by the politically conscious urban population likely to lead to coups and revolutions in additional African countries? I see the possibility of a rapidly spreading problem in large parts of Africa.

(4) How may foreign government reactions in one area affect US policy objectives in other areas? For example, would West European disappointment over weak economic recovery further reduce their willingness to support the US in a more restrictive policy toward the Soviet Bloc?

Other Long-term Trends

I believe the section on longer term perspectives should focus on the types of forces to which the industrial economies, and the US in particular, will have to adjust during the 1980s, and the nature of the needed adjustments. Specifically, the US and Western Europe are faced with growing foreign competition not only of the traditional type from low-wage countries, but on two other fronts as well. The three sources of competition are:

(1) Traditional competition from low-wage LDCs in labor-intensive products, such as textiles and shoes. This is, of course, not a new problem, although it involves many new exporters, and the US appears to be adjusting fairly well.

(2) Competition from the NICs in basic, capital intensive industries, such as steel, nonferrous metals refining, petrochemicals, and on medium-technology machinery, based on the rapid transfer of technology and capital and the rapid growth of a literate labor force in these countries.

(3) Competition from Japan in high technology industries, such as microelectronics, based on that country's extraordinarily high educational attainment, labor discipline, and social cohesiveness.

This three-pronged competition not only creates great pressure on the mature industrial economies, on Western Europe even more than on

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the US, in their efforts to avoid excessive unemployment, but also carries security implications. There is a risk, for example, that the US eventually will have to procure abroad a dangerously large share of key inputs for its military programs.

In General

While adding some material along the above lines, we would hope to boil down some existing sections so as to hold the length of the paper to a minimum.



Maurice C. Ernst

Attachment,
As stated

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